

This record is a partial extract of the original cable. The full text of the original cable is not available.

281056Z Oct 04

UNCLAS SECTION 01 OF 04 ABUJA 001820

SIPDIS

SENSITIVE BUT UNCLASSIFIED

E.O. 12958: N/A

TAGS: [EFIN](#) [ETRD](#) [EAI](#) [EINV](#) [NI](#)

SUBJECT: NIGERIA'S BUDGET FOR 2005

1. (U) Summary: President Obasanjo delivered a speech on his USD 12.2 billion (Naira 1.618 trillion) Budget proposal for 2005 to a joint session of the National Assembly on October 12. The 2005 budget, the second under Nigeria's economic reform program NEEDS (National Economic Empowerment and Development Strategy), will incorporate a medium-term expenditure framework (MTEF) taking into account Budget 2004 and making preliminary forecasts for 2006 and 2007.

2. (U) Continue Summary: Budget 2005 is to focus on building physical and social infrastructure and completing all uncompleted projects. The top priorities in Budget 2005 are to be Roads, Power, Water Supply, Agriculture, Education, Health, and National Security. Obasanjo also announced that the saving of monies above a budget benchmark price of crude oil in an escrow account would be continued in year 2005. Nigeria will harmonize its tariffs with the ECOWAS tariff structure, but continue many product bans through 2007.

3. (U) Continue Summary: The President's speech highlighted the proposed Virgin Nigeria Airlines as proof that Nigeria is becoming successful at attracting foreign investment. President Obasanjo's presentation on the budget was delivered two-and-a-half months before the beginning of 2005, as opposed to last year's budget, which was presented on December 18. As of October 27, however, the budget itself had not yet been delivered in full to the National Assembly. Although there has been incremental progress, the key question is how much of the budget will actually be spent for the purposes for which it was intended. End Summary.

Budget 2005 Highlights

4. (U) On Tuesday, October 12, President Olusegun Obasanjo presented the federal budget for 2005 with the theme "Building Physical and Human Infrastructure for Job Creation and Poverty Eradication." The total budget is USD 12.2 billion (Naira 1.618 trillion), consisting of a Capital Budget of USD 4 billion (Naira 531 billion); a Recurrent Budget of USD 4.90 billion (Naira 651 billion); Debt Servicing of USD 2.71 billion (Naira 360 billion); and Statutory Transfers of USD 0.57 billion (Naira 76 billion). In the overall budget, pension payments account for the largest share at 10.7 percent; 9.3 percent for education; 8.6 percent for defense; 7.2 percent for the police; 6.7 percent for works; 6.4 percent for power; 5.1 percent for health; and 2 percent for agriculture.

5. (U) According to Obasanjo, the benchmark price of crude oil in Budget 2005 is USD 27 per barrel, an 8 percent increase over Budget 2004's reference price of USD 25. Obasanjo also confirmed that, despite current high oil prices, the GON had chosen a "prudent" benchmark price because of uncertainties linked to the volatile oil market and OPEC pricing decisions coming up in December 2004.

6. (U) Based on the USD 27 per barrel reference price, the government says it estimates federally collectible revenue to be USD 27.2 billion (Naira 3.619 trillion): USD 21.82 billion (Naira 2.902 trillion) oil revenues; USD 4.23 billion (Naira 563 billion) non-oil taxes; and USD 752 million (Naira 100 billion) independent revenue. The Mission is unable to verify such figures.

7. (U) Federally retained revenue in Budget 2005 under the current revenue sharing formula would total USD 9.8 billion (Naira 1.304 trillion): The Federal Government's share of the Federation Account of USD 8.86 billion (Naira 1.179 trillion); Share of value added tax (VAT) of USD 188 million (Naira 25 billion); and Independent revenue of USD 752 million (Naira 100 billion).

8. (U) The projected fiscal deficit of USD 2.36 billion (Naira 314 billion) or 2.9 percent of GDP would be 45 percent higher than the 2 percent projected in 2004. Approximately one half the deficit, USD 1.2 billion (Naira 158 billion), would be financed from the Federal

Government's share of 2004 proceeds from crude oil sales above the benchmark price saved in an escrow account at the Central Bank of Nigeria. The rest of the deficit would be financed through privatization proceeds, sales of government property in Abuja and other parts of the country, recovery of looted funds, and capital market issues.

Budget 2005 Parameters

¶9. (U) Budget 2005 was based on the following assumptions, according to the President's speech:

- Crude oil production of 2.71 million barrels a day, which includes 150,000 barrels of condensate;
- NLNG and upstream gas revenues of USD 398 million (Naira 53 billion);
- Crude oil price of USD 27 per barrel;
- Continuation of a fiscal rule in which revenues above the USD 27 per barrel price would be saved;
- USD 4.23 billion for Joint Venture cash calls;
- Inflation rate of 10 percent;
- GDP growth rate of 7 percent; and
- External reserves of USD 15 billion or 11 months worth of imports.

Note: the Budget Office of the Federation has since revised these figures to reflect crude oil production of 2.68 Mbp/d and external reserves of USD 11 billion. End note.

Capital Budget

¶10. (U) The capital budget focused on priorities of physical and human infrastructure such as power, water supply, roads, education, health, and agriculture. The total capital budget would be USD 4 billion (Naira 531 billion) representing an increase of 51 percent above the year 2004 budget of USD 2.63 billion (Naira 350 billion). The capital budget included USD 376 million (Naira 50 billion) for paying local contractor debts, and USD 80 million (Naira 10.6 billion) equity for start ups of the Nigerian Petroleum Development Company (NPDC).

¶11. (U) President Obasanjo announced that the government plans to maintain and rehabilitate federal roads substantially and, over the next three years, to complete roads that are now 70 percent finished. He also announced plans over the next three years to double Nigeria's present power generation capacity. Current power generation capacity is about 4500 Megawatts.

Recurrent Budget

¶12. (U) President Obasanjo estimated total payroll and overhead at USD 4.9 billion (Naira 651 billion), attributing the large recurrent budget figure to pension arrears; salaries and allowances of newly recruited policemen; monies for capacity building of the civil service; anticipated redundancy payments as part of the civil service reforms; and arrears of professional allowances to teachers, doctors, researchers and others who were not paid in the past.

¶13. (U) Total pension cost for year 2005 was estimated at USD 895 million (Naira 119 billion) comprising USD 331 million (Naira 44 billion) as the Federal Government's contribution to the new contributory pension scheme, and USD 564 million (Naira 75 billion) to pay present pensioners under the Pay As You Go scheme.

Debt Service

¶14. (U) Total debt service payment was estimated at USD 2.71 billion (Naira 360 billion), made up of USD 1.48 billion (Naira 190 billion) for domestic debt service, and USD 1.28 billion (Naira 170 billion) for external debt service.

¶15. (U) Obasanjo also announced that the Federal Government aimed to reduce its domestic debt by restructuring debt and curtailing "Ways and Means" borrowing (Note: borrowing from the Central Bank of Nigeria -- the GON is allowed to borrow up to 12.5 percent of the previous year's budget in this manner. End Note). The Central Bank will be instructed to create a single, consolidated treasury account for the GON, with the relevant sub-accounts for the various government departments.

Statutory Transfers

116. (U) Estimated statutory transfers of USD 571 million (Naira 76 billion) comprised USD 248 million (Naira 33 billion) to the National Judicial Council; USD 128 million (Naira 17 billion) to the Niger Delta Development Commission (NDDC); and USD 195 million (Naira 26 billion) to the Universal Basic Education Commission.

Cushioning The Adverse Effects Of The Reforms

117. (U) President Obasanjo also announced that USD 37.6 million (Naira 5 billion) would be committed towards cushioning the adverse effects of the ongoing reforms on the citizenry. He inaugurated a 32-person committee on Monday, October 11, headed by the Deputy Senate President Ibrahim Mantu to fashion measures to mitigate the adverse impact of the reforms in the short to medium term.

Other Policy Issues Relevant To Budget 2005

118. (U) On tariff policy, President Obasanjo acknowledged that the current tariff policy contains many distortions, which do not create a level playing field for business but do create an atmosphere of uncertainty for making business decisions. Obasanjo announced that Nigeria's tariffs would be harmonized with the ECOWAS tariff regime and that additional tariffs could and would also be added to finished goods imports to protect selected sectors where Nigeria has comparative advantage but needs time to develop. Obasanjo confirmed that the new tariff regime would commence by the end of June 2005, and from that time on, no waivers or exemptions would be honored.

119. (U) Banned products would be phased into the new tariff structure starting in January 2007 but remain banned until then. Certain items needed as inputs in manufacturing would be reviewed, however: Federal Executive Council (i.e., the President's cabinet) would study these particular bans with a view toward ending them within the next few weeks.

120. (U) On destination inspection, Obasanjo announced that the GON is still interested in implementing the destination inspection regime, and is awaiting the final report and recommendations on scanning machines, and implementation of a complementary AYSCUDA system for customs processing. He announced that the report would be ready in the next two months.

121. (U) President Obasanjo announced that an overhaul of the tax laws would be ready by the beginning of year 2005.

122. (U) The President touted his reforms as making Nigeria a more attractive location for foreign investment and specifically Virgin Air's investment in a new airline, Virgin Nigeria Airways, as evidence of an improved investment climate.

123. (SBU) Although the President presented his budget speech earlier than last year (October 12 as opposed to December 18), as of October 27 the National Assembly had not received the full report itself. Channels Television, an independent TV station, reported that the Senate had complained at its plenary session October 21 that it could not deliberate on the budget because it had yet to receive a breakdown of the budget. Senator Farouk Bello confirmed this to Embassy Econ Specialist on October 22, noting that the Senate had received a summary of expenditures, but the Ministry of Finance had not yet submitted a breakdown of revenues. Bello speculated that this action would delay the budget discussion and eventually force the National Assembly to pass the budget without adequate deliberation. He even termed the presidency's submission of a budget without a breakdown of expenditures as "no better than a 419 scam (Nigerian advance fee fraud)" and claimed that the incomplete budget submission violated President Obasanjo's self-proclaimed principles of transparency. The Personal Secretary to the Finance Ministry confirmed on 22 October

SIPDIS
that her ministry had not yet submitted a budget breakdown to the National Assembly, because the Ministry was still working on it. And on October 27, a source in the Budget Office of the Federation, part of the Finance Ministry, said it was working on the last set of figures before conveying them to the National Assembly.

Comment

124. (U) The 2005 budget shows some progress in several areas. The use of the medium-term expenditure framework

(MTEF) will tend to instill greater fiscal discipline and encourage completion of projects begun in previous fiscal years. Major ministries are to provide performance indicators, and a Running Operational Review and audit will strengthen expenditure management. In addition, the GON is making efforts to convert its short-term debt into long-term debt. The GON has pledged to make quarterly, half-year and end-of-year figures available to the public via various means, including the newspaper. Finally, the GON is attempting to address priorities outlined in the NEEDS program and Millennium Development Goals (MDGs).

125. (U) On the other hand, the slow implementation of the budget because of the late release of "capital votes," a process by which the Cash Committee approves the release of funds for government expenditures, is a serious concern. The House of Representatives recently came up with a report naming the Due Process Office, which vets government contracts to ensure fairness in the bidding process and to check corruption, as the major cause of slow budget implementation. The legislators will have to oversee the process carefully to ensure the budget is fully implemented. In a press interview, House Finance Committee Chairman Farouk Lawan stated that only 28 percent of the 2003 budget was implemented; only 50 percent of the FY 2004 budget had been implemented so far; and only 70 percent this year's budget was likely to be implemented by year's end. While the trend is positive, it still falls far short of full implementation. The whole budget exercise will only be effective to the extent that funds allocated for a certain purpose are actually spent for that purpose. End Comment.

CAMPBELL